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Message Text

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SUBJECT: COAL IN BRITAIN'S FUTURE

L. BEGIN SUMMARY. THE REVERSAL OF COAL'S DECLINE IN BRITAIN IS PROVING DIFFICULT. BUT RESERVES ARE IMPRESSIVE, AND THE INDUSTRY'S RECOVERY DEPENDS LARGELY UPON FUTURE PRODUCTIVITY. THIS EFFICIENCY WILL REQUIRE LARGE NEW INVESTMENT AND GREATER PRODUCTIVITY FROM MINERS. IF AGREEMENTS CAN BE DEVELOPED WHICH MEET MINERS' LONG-TERM NEEDS, COAL COULD PROVIDE BRITAIN WITH ENERGY SECURITY BEYOND THE ERA OF OIL AND GAS AND AN ALTERNATIVE TO GREATLY EXPANDED USE OF NUCLEAR ENERGY. END SUMMARY.

2. COAL'S PLACE IN BRITAIN'S ENERGY FUTURE DEPENDS UPON
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PRODUCTIVITY. BRITISH COAL WAS DISPLACED BY CHEAP MIDDL EAST OIL SO THOROUGHLY THAT THE SLIDE STILL HAS NOT BEEN ARRESTED. EXCEPT FOR MAJOR STRIKE YEARS, THE ESTIMATED L977 OUTPUT OF LL7 MILLION TONS WAS THE LOWEST POST-WAR LEVEL. OUTPUT PER MAN-SHIFT AT FIRST NEARLY DOUBLED DUE TO MECHANIZATION, FROM 24.7 HUNDRED (CWT) IN L957 TO 44.L CWT IN L97L, BUT FOR THE LAST SEVEN YEARS PRODUC-

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TIVITY HAS FAILED TO IMPROVE EVEN MARGINALLY.

3. THE YOM KIPPUR WAR IN L973 INSPIRED A NEW LOOK AT THE NEGLECTED COAL INDUSTRY AND FOSTERED THE PLAN FOR COAL OBJECTIVE OF L35 MILLION TONS PRODUCTION (INCLUDING L5 MILLION TONS SURFACE MINED) BY L985. A LATER PROGRAM HAS CALLED FOR AN INCREASE TO L70 MILLION TONS BY THE YEAR 2000, INCLUDING 20 MILLION TONS SURFACE MINED. THE FIRST OBJECTIVE, AT LEAST, WAS TOO OPTIMISTIC: THE LONG PRODUCTION RUNDOWN HAD CAUSED A MORE SEVERE NEGLECT OF MINES THAN FIRST SUPPOSED. OVER 30 PERCENT OF CURRENT PRODUCTION COMES FROM PITS SUNK OVER L00 YEARS AGO; SCARCELY TEN PERCENT COMES FROM PITS DUG SINCE WORLD WAR II. FURTHERMORE, THE COST OF MAJOR NEW PROJECTS HAS ALREADY ESCALATED BY 50 PERCENT SINCE THE L974 PLAN FOR COAL WAS LAUNCHED--NOT INCLUDING THE EFFECTS OF GENERAL INFLATION.

4. AS A RESULT OF THESE AND ENVIRONMENTAL CONSIDERATIONS SOME OF THE LARGE NEW PROJECTS HAVE BEEN DELAYED. THE PROMISING SELBY DEEP-MINE PROJECT IN YORKSHIRE IS DOING WELL AND PROMISES TO ADD L0 MILLION TONS ANNUAL PRODUC-TION BY L985. BUT THE VALE OF BELVOIR PROJECT IN LEICESTERSHIRE, FOR EXAMPLE, ENCOUNTERED SEVERE LAND-USE OPPOSITION, AND THE PROJECT IS AT LEAST THREE YEARS BEHIN SCHEDULE. THE PLAN FOR COAL TARGET OF L35 MILLION TONS LIMITED OFFICIAL USE

THUS APPEARS MORE LIKELY TO BE REACHED IN L988 OR L989 THAN THE INTENDED L985. WHILE IT IS STILL EARLY TO WRITE OFF THE YEAR 2000 GOAL OF L70 MILLION TONS, A CORRES-PONDINGLY GREATER EFFORT WILL NOW BE REQUIRED.

5. THE SIZE OF COAL RESERVES IS NO OBSTACLE. WHILE SOME SEAMS ARE DEEP AND FAULTED, THERE ARE SUFFICIENT DEPOSITS OF ACCESSIBLE COAL. THE SELBY DEPOSITS, FOR EXAMPLE, ARE ELEVEN FEET THICK, LEVEL, AND NOT OVER L,000 FEET BELOW THE SURFACE. U.K. OPERATING RESERVES (FULLY PROVEN) TOTAL SIX BILLION TONS, OR FIFTY YEARS' CONSUMP-TION. TOTAL RESOURCES (COAL IN PLACE) DOWN TO 4,000 FEET ARE ESTIMATED TO BE L90 BILLION TONS, OF WHICH 45 BILLION TONS ARE CONSIDERED POTENTIALLY RECOVERABLE WITH EXISTING TECHNOLOGY. THIS WOULD LAST NEARLY THREE HUNDRED YEARS EVEN AT THE PROJECTED YEAR 2000 RATE OF PRODUCTION.

6. COAL IS NOT A PREFERRED FUEL, EVEN IN BRITAIN WHERE SMOKESTACK EMISSION STANDARDS ARE LESS STRICT THAN IN THE UNITED STATES. BECAUSE OF THE DIFFICULTY OF HANDLING AND STORING COAL A PRICE ADVANTAGE IS NEEDED BEFORE CONSUMERS

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WILL PREFER COAL TO CLEANER AND MORE MANAGEABLE OIL, GAS, AND (IN SOME RESPECTS) NUCLEAR-GENERATED ELECTRICITY. AN ENERGY COMMISSION PAPER PREPARED FOR THE U.K. DEPARTMENT OF ENERGY (UKDOE) SUGGESTS THAT ONE PENCE PER THERM (L00,000 BTUS) IS THE ADVANTAGE REQUIRED IN EXISTING

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POWER STATIONS. THIS RISES TO THREE PENCE PER THERM WHERE INVESTMENT DECISIONS IN A POWER STATION ARE TO BE MADE AND TO AT LEAST FOUR PENCE PER THERM IN MEDIUM AND SMALL-SCALE INDUSTRIAL USE.

7. THE EXISTING COST MARGIN FOR COAL IS UNCOMFORTABLY CLOSE. CURRENTLY, COAL-GENERATED POWER COSTS NINE PENCE PER THERM, WHILE OIL, TODAY'S CHIEF COMPETITOR, IS LL.5 PENCE PER THERM. (GAS IS NOT WIDELY USED TO RAISE STEAM IN BRITAIN.) COAL'S CHIEF FUTURE COMPETITION IN BRITAIN WILL BE NUCLEAR POWER. THE CENTRAL ELECTRICITY GENERATING BOARD (CEGB) REPORTS THAT ELECTRICITY FROM COAL COSTS L.08 PENCE PER KILOWATT HOUR (KWH), VERSUS 0.62 PENCE PER KWH FROM THEIR EXISTING THERMAL REACTORS. HOWEVER, THE UKDOE BELIEVES COAL FROM NEW FIELDS SHOULD

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BE COMPETITIVE IF URANIUM PRICES INCREASE "A LITTLE."
THEY DISCOURAGE GREATER PRECISION WHEN COMPARING COAL
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COSTS WITH NUCLEAR POWER BECAUSE SO MUCH DEPENDS BOTH UPON THE AGE OF THE PLANT (MOST EXISTING REACTORS ARE AGING MAGNOX UNITS) AND THE METHODS USED TO AMORTIZE PLANT COSTS. THE NATIONAL COAL BOARD (NCB) SEES THE AVERAGE POWER LOAD IN A GIVEN PLANT AS A CHIEF DETERMINANT. GENERALLY, FOR HIGH LOAD FACTORS OF 60-70 PERCENT OF STATION CAPACITY, THE NCB BELIEVES NUCLEAR POWER WILL HAVE THE ADVANTAGE. IF LOADS AVERAGE 40 PERCENT OR LESS, AN EFFICIENT COAL INDUSTRY WOULD BE SUPREME. THE RANGE BETWEEN THESE FIGURES, OF COURSE, WOULD DEPEND UPON FUEL COSTS, AGE OF POWER PLANT, ACCOUNTING TECHNIQUES, AND OTHER STANDARD VARIABLES. THE CURRENT U.K. ELECTRICAL SYSTEM OPERATES ON AN AVERAGE LOAD FACTOR OF 40 PERCENT.

8. CURRENTLY 72 PERCENT OF ALL U.K. ELECTRICITY IS COAL-FIRED, AND 78 PERCENT OF U.K. COAL PRODUCTION IS USED TO RAISE STEAM IN POWER PLANTS; THE L985 GOAL IS 83 PERCENT. MUCH OF THE REMAINDER OF U.K. COAL IS USED IN STEEL-MAKING, BUT THE STEEL MARKET IS DEPRESSED FOR THE FORESEEABLE FUTURE. HOWEVER, THE ENERGY COMMISSION REPORT SUGGESTS THAT THE USE OF COAL IN POWER STATIONS MIGHT EVEN FALL BY THE YEAR 2000, WHEN COAL MIGHT BE USED TO MANUFACTURE SYNTHETIC NATURAL GAS. WHILE THIS USE IS MORE SPECULATIVE, IT INDICATES THAT COAL'S ROLE IN BRITAIN WOULD ALWAYS BE MAJOR SO LONG AS COSTS ARE KEPT IN LINE.

9. ANOTHER CHALLENGE TO COAL-GENERATED ELECTRIC POWER COST EFFICIENCY IN BRITAIN WILL BE ENVIRONMENTAL. HERETOFORE, PREVAILING WIND PATTERNS HAVE SIMPLY CARRIED THE STATIONS' DISCHARGES TO SCANDINAVIA. SOME U.K. SMOKESTACKS CLIMB AS HIGH AS 600 FEET TO REACH THESE CURRENTS. WHILE THIS CONVENIENCE HAS ENABLED MANY COAL
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USERS TO AVOID LOCAL ENVIRONMENTAL OBJECTIONS, AND THEREBY THE COST OF POLLUTION CONTROL EQUIPMENT, THE UKDOE IS REALISTIC ABOUT THE CHANCES OF CONTINUING INDEFINITELY. NORWEGIAN GLACIERS HAVE RECENTLY BEEN SHOWN TO CONTAIN UGLY DEPOSITS FROM BRITISH COAL, AND ACID RAIN AS FAR AS SWEDEN IS TRACED TO THE UNITED KINGDOM. FLUIDIZED BED COMBUSTION, IF MASTERED ON A

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COMMERCIAL SCALE, COULD ALLEVIATE THIS PROBLEM. SULPHUR WOULD BE REMOVED BEFORE IT IS EMITTED INTO SMOKESTACKS, AND COAL WOULD BE BURNED WITH POSSIBLY A 20 PERCENT EFFICIENCY GAIN, THEREBY MODERATING COSTS.

L0. IMPORTED COAL IS CHEAPER THAN BRITISH COAL. THE U.K. IMPORTS BETWEEN TWO AND FIVE MILLION TONS OF METALLURGICAL COAL PER YEAR, MOSTLY FROM AUSTRALIA, THE UNITED STATES, POLAND, AND SOUTH AFRICA. CURRENT U.K. COAL PRODUCTION COSTS ARE $30-$40 PER TON, VERSUS $3-$4 PER TON IN THE WESTERN UNITED STATES (BASED ON OPEN-CAST MINING), $2 PER TON IN SOUTH AFRICA (BASED ON CHEAP LABOR), AND ANY PRICE AT ALL FROM POLAND (BASED ON FOREIGN EXCHANGE NEEDS RATHER THAN COSTS). WITHIN THE EUROPEAN COMMUNITY, THE U.K. SEEKS BOTH EC-FINANCED COAL STOCKS AND A PREFERENCE FOR HIGH-COST EC COAL OVER IMPORTS. IF BRITAIN SHOULD REJECT A MASSIVE SHIFT INTO NUCLEAR ELECTRICITY GENERATION AT THE TIME WHEN OIL AND GAS RESERVES BEGIN TO RUN LOW (CURRENTLY VIEWED AS SOME-TIME IN THE L990S), THE UKDOE BELIEVES SUBSTANTIAL COAL IMPORTS WOULD THEN BE REQUIRED IN THE ABSENCE OF MAJOR PRODUCTIVITY GAINS. THEY TALK LITTLE PUBLICLY OF THE PROSPECT SINCE IMPORTS ARE NOT POPULAR WITH MINERS. BUT THE UKDOE BELIEVES THAT EXPANSION TO L70 MILLION TONS OF ANNUAL COAL OUTPUT IS THE MAXIMUM ATTAINABLE IN THE NEXT TWENTY YEARS. SUBSTANTIAL IMPORTS, IN TURN, WOULD REQUIRE THAT NEW POWER PLANTS BE SITED ON THE SEACOASTS, WITH DIRECT ACCESS TO DEEP WATER. MOST COAL-FIRED STATIONS ARE NOW LOCATED WELL INLAND NEAR THE COLLIERIES.
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WITHOUT SUCH RELOCATION, A SHIFT EVEN TO L0-20 MILLION

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TONS PER YEAR OF IMPORTED COAL WOULD REQUIRE A DOUBLING OF BRITAIN'S RAIL TONNAGE.

LL. BRITAIN'S ABILITY TO FACE THESE CHALLENGES AND OPPORTUNITIES RESTS LARGELY WITH THE MINERS. THE DECLINING DEMAND FOR COAL DEPRESSED MINERS' PAY UNTIL THE STRIKES OF L972 AND L974. OTHER UNIONS' GAINS THEN MATCHED THE MINERS' HARD-WON INCREASES, AND THE MINERS WERE LITTLE BETTER OFF THAN BEFORE. THE MINERS HAVE SEEN THEMSELVES DRIFT DOWN THE RELATIVE WAGE SCALE AGAIN. WHEN PLAN FOR COAL WAS LAUNCHED IN L974, THE NCB BEGAN TO PROMOTE A PRODUCTIVITY SCHEME WHICH NEVER WAS AGREED TO BECAUSE OF NATIONAL UNION OF MINERS (NUM) OPPOSITION AND GOVERNMENT PAY POLICY. FOLLOWING INITIAL REJECTION OF A PRODUCTIVITY SCHEME BY THE MINERS IN L977, THE NEGOTIATION OF LOCALIZED INCENTIVE SCHEMES HAS, AFTER INTERNAL STRUGGLE, RECEIVED THE SUPPORT OF NUM CENTRAL
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LEADERSHIP (77 LONDON 20440 AND RELATED TELEGRAMS). THE SCHEMES, WITH PROMISE OF SUBSTANTIAL PAY INCREASES, HAVE STRONG RANK-AND-FILE MINER SUPPORT IN MOST REGIONS.

L2. THE MINERS' OPEN COOPERATION WITH NCB AND GOVERN-MENTAL OBJECTIVES WILL BE REQUIRED, FOR IT IS TIME TO CLOSE UNECONOMIC PITS. A NEW PAPER FROM THE CONSERVATIV POLITICAL CENTER, WHILE AGREEING THAT COAL'S FUTURE IS POTENTIALLY BRIGHT, SAYS THE AVAILABLE EVIDENCE ON LABOR PRODUCTIVITY "DOES NOT PROVIDE STRONG GROUNDS FOR OPTIMISM ABOUT THE FUTURE". THERE IS THE ADDED IMPONDERABLE OF NEEDED DEPENDABILITY OF SUPPLY. ABSENCE OF FREQUENT MAJOR STRIKES REQUIRES A LABOR-MANAGEMENT FRAMEWORK THAT IS WORKABLE FOR BOTH SIDES. (IT MUST ALSO BE SUFFICIENT TO ATTRACT NEW GENERATIONS INTO

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MINING: IN L976, RECRUITMENT WAS 20,000, BUT LOSSES THROUGH RETIREMENT AND LEAVING WERE 2L,000.) IF THERE ARE LONG-RUN REASONS TO DOUBT THE SATISFACTION OR QUIESCENCE OF U.K. MINERS, IMPORTED COAL AND NUCLEAR POWER COULD WELL GAIN ASCENDANCY.

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